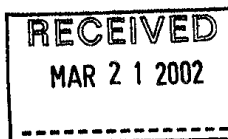




DEPUTY COMMISSIONER

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

February 15, 2002



MEMORANDUM FOR TREASURY INSPECTOR GENERAL FOR
TAX ADMINISTRATION

FROM: *for* John C. Reece *Robert R. Albright*
Deputy Commissioner for Modernization &
Chief Information Officer

SUBJECT: Final Report: Improvements are Needed in the Management of
the e-Services Project to Enable Timely Progress Towards
Future Goals (Report No. 2001-20-144)

I apologize for the delay in replying to your report on the Business Systems Modernization (BSM) e-Services project. The e-Services project is developing easy-to-use electronic products and services targeted at specific practitioner segments that inform, educate, and serve taxpayers. In addition, the project will provide secure electronic customer account management capabilities to all businesses, individuals, and other customers.

As one of the initial systems modernization projects, e-Services provides invaluable experience in the management and oversight of the BSM program and projects. Since your audit, e-Services exited Milestone 3 on August 24, 2001, with Enterprise Architecture (EA) certification and negotiated a contract for the next milestone. In addition, we began implementing improved management controls to ensure future success of the program. Below are the comments and status of issues in your report. The individual recommendations are addressed in the attachment.

IRS is Refining Management Processes To Improve Requirements Management

The e-Services project began before the development of the Enterprise Architecture (EA) and infrastructure projects. The project's requirements evolved to remain consistent with program direction and address the IRS's business needs. While incorporating a broader portal design for all registration types did slow its progress, this was the appropriate management decision for the long-term success of e-Services initiatives.

We have refined and augmented our sub-executive steering committees processes and procedures to initiate communication and oversight earlier in the project. This will improve the stability of project requirements. However, our development methodology, and the dynamic nature of business priorities, requires the projects and decision makers be flexible in managing technology investments to meet the IRS's mission.

Tracking IRS Labor Costs for BSM Projects Is Hampered By The Existing IRS Financial and Personnel Systems

Accurate capture of IRS labor costs for the BSM project teams is hampered by the existing time keeping system. Although the IRS has project cost accounting sub-systems (PCAS) codes established for capturing IRS staff time and travel for modernization projects, systemic and procedural issues remain. The IRS has a Single Entry Time Reporting (SETR) system that can only capture time in 40 hour increments. Many of the e-service IRS personnel are subject matter experts used much less than 40 hours per pay period.

We are pursuing further refinements to our time keeping procedures to increase the accuracy of IRS labor costs. However, until we put new personnel and financial systems in place, these costs will remain a rough indicator of IRS labor costs. We believe these costs are a small percentage of the overall BSM project costs. To develop, administer, and maintain a parallel system to improve the accuracy of the captured IRS labor costs would be more time-consuming and costly than the value it would provide in evaluating investment decisions.

Rigorous Contract Management Is A Key To BSM Program Success

One of the lessons we learned from all of the initial BSM projects, including e-Services, is the impact of contract management on schedule and performance. We have made several improvements to the development and administration of the contract. First, we require that contracts be defined and negotiated before exiting the beginning of the next phase of work. This past August, e-Services exited Milestone 3 with a negotiated contract in place. In addition, the IRS and PRIME project managers develop performance-based matrices to better define deliverables and monitoring responsibilities. We are discussing and developing future refinements to the contract management for BSM in a newly formed group of IRS and PRIME contracting and program management executives.

Another essential component in properly managing these projects and delivering business benefits is using the appropriate contracting vehicle. There is no one-size-fits-all contracting approach to every project. Consistent with the Federal Acquisition Regulation (FAR), we are committed to applying the most appropriate contract type and identifying alternatives. During your audit, e-Services had a fixed-price contract. Under

this contract type, there is a great incentive for the contractor to finish early and a disincentive to finish late. The notion that additional disincentives or using only fixed price contract types would improve or save money is incorrect. Fixed price contracts and disincentives are best used when the services, products, and requirements are well defined and stable. Many of the BSM projects supporting new ways of doing business in which business requirements evolve over time. In this environment, a firm fixed price contract may even cost the IRS more. We do not believe using disincentives will necessarily ensure more timely delivery of the projects. The dependency between the projects and other IRS organizations is too complex to apply this contracting tool effectively. In addition, disincentives can establish an adversarial relationship with our PRIME contractor, which will not promote the seamless management partnership critical to the BSM's success.

Configuration Management Is In Place And Refinements Are Planned

We made significant progress in implementing configuration management practices across the portfolio of modernization projects. Last January, we assessed the PRIME configuration management program and implemented several key improvements in June 2001. Improvements include:

- Developing of standard operating procedures for all key practices coordinated across PRIME and BSMO
- Developing standard operating procedures for configuration identification and naming standards applied across the entire program
- Placing the Enterprise Life Cycle Process Asset Library, our documented methodology, under configuration management control

In addition, we established a process for managing changes to architectural baselines. Modifications require change requests (CRs), including an impact analysis citing functional, cost, and schedule impacts. The Business Systems Modernization Office and PRIME Configuration Control Boards (CCBs) then approve these change requests. These boards have been operational since September 2000 and were chartered with fully defined roles and responsibilities in February 2001. We also established control practices and tools to assist the CCBs in change management. These practices and tools include:

- A change request tracking system to control changes to the baseline configuration items
- A deliverables database repository which houses the official baseline documentation
- Analytical tools to assess the impact of configuration changes to the EA and project plan baselines

Risk Management Processes Are Defined and Refinements Are Planned

The initial risk procedures instituted in June 2000 were overly complex to implement. After your audits last winter, we improved the procedures, the risk tracking system, and oversight of program-wide risk management.

In December 2000, a process action team (PAT) with representatives from IRS, PRIME, and MITRE developed a simplified common risk, issue, and action item management process to use across the modernization program and delivered it in March 2001. We formed a second PAT in March to develop an escalation process for risks, issues, and action items.

In addition, we enhanced and implemented an existing centralized database called the Rational Clearquest Item Tracking System (ITS) in April to record and manage risks, issues, and action items in one central database. All the risk managers received training on the new procedures and tools. The BSM projects and program level organizations are currently using these risk management procedures and the ITS tool to record and manage their risks in one central database.

To ensure the quality of the risk statements, the PRIME Risk Manager periodically reviews and provides improvement suggestions for the weekly risk reports from the various projects and program level organizations. Future improvements in risk, issue, and action item management include:

- Augmenting the risk management plan template with guidance for the identification of project level risks versus program level risks
- Establishing thresholds for situations to be identified as risks
- Identifying risks as they progress to the next milestone phase in their life cycle
- Developing a risk, issue, and action item escalation process and procedures

Improvements in Documenting Dependencies Improved Monitoring of the Program

Managing project dependencies is critical to the success of the e-Services project and the overall modernization program. E-Services has many cross project dependencies we tracked before implementing the Cross Project Dependency (CPD) form. The Release Management Group uses the CPD to initiate the process that places dependencies for tracking in the Integrated Master Schedule (IMS). E-Services dependencies are documented using the CPD and included in the IMS. Dependencies are not automatically considered risks. Dependencies are monitored by the IMS during weekly and monthly meetings. Schedule slippage may become a risk we would capture in the risk database.

PRIME Practices Standard Project Management Techniques

We do not agree that putting individual names at the lowest level in the schedule will improve project management performance. The PRIME is responsible for ensuring the program is staffed with the correct skills, and develops its work breakdown structure (WBS) according to standard project management practices as described by Software Engineering Institute's (SEI) Software Capability Maturity Model (SW-CMM). Names of specific individuals are not included on these schedules because project managers' assignments are dynamically based on the requirements of the work in each WBS area. Due to the complex integrated schedules, budgets, and many dependencies, the availability of specific individuals to work on specific WBS elements cannot be reliably planned months in advance. Finally, to require the PRIME to maintain the schedule to the individual level would be very costly to plan, budget, and administer.

We recognize the need to improve schedule and cost estimates. We are working closely with the PRIME to improve this effort by applying our experience with the initial BSM projects.

If you have any questions, please contact me at (202) 622-6800 or Jim Williams, Deputy Associate Commissioner for Program Management, at (202) 622-7456.

Attachment

Business Systems Modernization Management Response

Draft Audit Report – Improvements Are Needed in the Management of the e-Services Project to Enable Timely Progress Towards Future Goals

I. Significant Changes in Requirements and Setbacks in other Development Efforts Resulted in Delays and Increased Costs

- 1. Recommendation 1:** Ensure the e-Services project team identifies, evaluates, and monitors all significant dependencies on other modernization projects and activities.

Corrective Action 1: Cross Project Dependency (CPD) form is used by the Release Management Group to initiate the process that places dependencies for tracking in the Integrated Master Schedule (IMS). Since the introduction of the CPD, all e-Services dependencies have been documented using the CPD to include them in the IMS. Monitoring of the dependencies are conducted in weekly Alerts meetings, monthly release board meetings, and review of analysis of the risk data.

Implementation Date: August 1, 2001
Responsible Official: Richard H. Skorny, Director
Office of Tax Administration Modernization

- Recommendation 2:** Ensure the CBS ESC is aware of each factor that could cause delays or cost increases in future development and deployment barriers need to be addressed

Corrective Action 2: E-Services project keeps the CBS ESC aware of factors that could cause delays or cost increases through regularly scheduled briefings. These briefings occur once a month. The e-Services briefing is scheduled two weeks prior to the CBS ESC briefing. In May of 2000, e-Services project was requested to revisit milestone 2. At that time, e-Services re-validated the portfolio and initiated a competitive solutions acquisition for sub-release 2. Additionally, in December 2000, the Core Business System (CBS) Executive Steering Committee (ESC) directed the e-Services project to expand the original project scope to include a registration portal design for all known registration types.

We have refined and augmented our sub-executive steering committees to initiate communication and oversight earlier in the life cycle of the project. This may improve the stability of project requirements.

Business Systems Modernization Management Response

Draft Audit Report – Improvements Are Needed in the Management of the e-Services Project to Enable Timely Progress Towards Future Goals

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II. Costs for Employees Working on the Project Were Not Accurately Tracked

Recommendation 3. Reviewing time charges monthly for the IRS employees working on the e-Services project to verify the accuracy of the labor costs charged to the project. The time charges should be compared to estimates to make sure the charges are reasonable.

Corrective Action 3: We do not agree with the recommendation.